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SUBJECT: MADRID WEEKLY ECONOMIC UPDATE -- AUGUST 25-29

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Consumer Spending Slumps

11. (U) The economy's deceleration continues to be reflected in slowing consumer spending. Household spending, which drives two-thirds of the economy, appeared to continue its drop in the summer sales season according to reports from retailers and business associations. Aggressive pricing during Spain's traditional summer sales was not successful in turning consumption around. While consumers bought more items during the season, overall they spent less money than the year before. Auto sales in the year through July decreased by 19 percent and are expected to reach a year-on-year drop of up to 40 percent in August according to auto association ANFAC. Comment: Analysts are not surprised by decreased consumer spending in areas related to the ailing housing market. However the extent of slowing spending in other areas such as textiles has surprised some. Consumer confidence has been rattled by the economic "crisis," a word which has become commonplace in Spanish homes. (El Pais, Expansion, Reuters, 8/27)

Budget Deficit Growing Rapidly

12. (U) The GOS budget deficit for the year through July reached 0.89% of GDP. Through May, the GOS was slightly in surplus. Since then, increased spending -- in part due to GOS stimulus measures -- and lower revenues have created a deficit for the first time since June of 2005. While some of the increase in June and July was the result of the first half of the 400-euro tax rebate, analysts expect that as activity slows and unemployment rises, the deficit will continue to grow. (Presidency press release, 8/27; Expansion, 8/28)

Inflation Indicators Mixed - Industrial Up in July, Consumer Down in August

13. (U) The National Statistics Office's preliminary consumer price inflation indicator showed August prices 4.9% above their August 2007 level. The drop from July's 5.3% year-on-year rate was largely due to lower oil prices, but some analysts believe the rate is likely to gradually decline during the remainder of the year. In July, industrial prices reached 10.2 percent above their July 2007 level, a rate of increase not seen since 1984. (El Pais, 8/26 and 8/29; La Vanguardia, 8/26)

GM To Reduce Production

14. (U) GM Spain has advised its workers that it will cut back on production this year in its Figueruelas plant due to slowing auto sales. For now, the company intends to cut back on worker hours, thereby foregoing production of 12,000 vehicles. GM is the first car manufacturer in Spain to announce a production cut. GM employs over 7,000 in plants in Figueruelas and Barcelona. Comment: GM had announced layoffs earlier in the year, but a union leader speculated that all the layoffs might not take place given the expense of severance packages. Spain is the world's eighth largest auto manufacturer. (All media, 8/28)

Solbes Stands Firm on GOS Regional Financing Plan

15. (U) Second Vice President and Minister of Economy and Finance Pedro Solbes, in parliament on August 28, defended the national government's original financing proposal to Spain's autonomous regions, which has been roundly rejected as insufficient by the Catalan parties in the national parliament and the Socialist-led tripartite Catalan regional government. Solbes called the July proposal a good starting point for discussions and the only viable alternative for

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funding equality of fundamental public services in all of Spain's regions. He also stated that his Economy Ministry would continue working with the regions to come to an agreement beneficial to all, but he warned that if a compromise cannot be reached, the GOS would impose its financing model. (All media, 8/29)

Regulator to Meet with Industry after Nuclear Plant Fire

16. (U) A nuclear power plant near Tarragona will remain closed for several weeks while investigators determine the cause of an electrical fire in one of its generators on August 24. Spain's nuclear regulator CSN reports that the fire was located outside the Vandellòs II plant's radioactive perimeter and was extinguished less than two hours after being discovered. Subsequent media reports have indicated that the fire may have been caused by a problem that the operator had known about for several months. The plant's operator ANAV, a joint operating company owned by Iberdrola and Endesa, is already under heavy scrutiny for recent mishaps at its Asco I and II plants. The day after the fire, CSN announced that it will conduct a meeting with nuclear plant operators and industry representatives to analyze recent problems in Spain's nuclear plants and review operating action plans. Environmental groups are calling on CSN to revoke ANAV's operating licenses. (Various media)

Acciona to Build Largest U.S. Desalination Plant in California

17. (U) Acciona Agua, a division of construction and renewable energy company Acciona, has received approval from the state of California to construct the biggest desalination plant in the U.S. in Carlsbad, California. When completed in 2011, the \$300 million plant will provide 204,000 cubic meters of water a day -- enough to supply 110,000 homes. Acciona already operates the U.S.'s largest desalination plant in Tampa, Florida with daily capacity of 108,000 cubic meters. Acciona has built over 70 desalination plants worldwide that provide water for 50 million people. (Cinco

Dias, 8/26; Reuters, 8/26; Company news release, 8/26)
Aguirre